

VZCZCXRO2929
RR RUEHCD RUEHGD RUEHHO RUEHNG RUEHNL RUEHRD RUEHRS RUEHTM
DE RUEHMC #0137/01 0981905
ZNR UUUUU ZZH
R 081905Z APR 09
FM AMCONSUL MONTERREY
TO RUEHC/SECSTATE WASHDC 3634
INFO RUEHME/AMEMBASSY MEXICO 4690
RUEHXC/ALL US CONSULATES IN MEXICO COLLECTIVE
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEFHLC/DEPT OF HOMELAND SECURITY WASHINGTON DC
RHMFIUU/HQ USNORTHCOM
RHMFIUU/DEPT OF JUSTICE WASHINGTON DC
RUEHMC/AMCONSUL MONTERREY 9206

UNCLAS SECTION 01 OF 03 MONTERREY 000137

SENSITIVE
SIPDIS

TREASURY FOR FINCEN

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [EIND](#) [EINV](#) [ETRD](#) [PGOV](#) [MX](#)
SUBJECT: MONTERREY: MONEY LAUNDERING MOVES FROM BANKS TO CASH
BUSINESSES

REF: MEXICO 0982

MONTERREY 00000137 001.2 OF 003

1. (SBU) Summary. Monterrey is a major destination for illegal bulk money transfers and money laundering from the United States. Although Mexico only intermittently prosecutes money launderers, our industry contacts believe that due to corporate self regulation and Mexican laws, money laundering is no longer concentrated in banks and money exchange houses but instead occurs in businesses specializing in cash transactions (commercial real estate, car dealerships, gas stations, commodities, agriculture, casinos, and jewelry). The Mexican Senate has approved a new asset forfeiture law to allow for the seizure of assets from third parties prior to a conviction, and that legislation is currently before the House of Deputies. Strong asset forfeiture laws are welcomed by the private sector in Monterrey as business leaders believe they will help spur the development of industry standards for legitimate companies. However, our private sector contacts think that still more changes are needed to prevent money laundering, especially in commercial real estate and high volume cash businesses. The most important ingredient to preventing money laundering is also the most difficult: the political will to aggressively enforce the law. End Summary.

Few Prosecutions as Drug Money Flows into Monterrey

2. (SBU) According to the U.S. Treasury's 2008 Mexico Bulk Currency Study, the Monterrey area is one of the three principal zones in Mexico where drug trafficking organizations (DTO's) aggregate bulk shipments of currency from the United States. Monterrey is a popular transit point because of its proximity to the United States and excellent transportation infrastructure. The relative wealth of the city also makes it easier for high-living drug cartel leaders to mix in with the general population. (In just the past month, the Mexican Army has detained a first tier member of the Sinaloa Cartel, Hector Huerta Rios, aka "La Burra," and a leader of the Zeta organization, Sigifredo Najera Talamantes, aka "el Canicon," in the Monterrey area.) After the money is aggregated, it is then used to purchase drugs from South American sources, used for operational expenses, stored for emergency use, or laundered into the legitimate economy. The U.S. 2008 National Drug Control Study estimates that 15 to 20 billion dollars are

smuggled to Mexico annually in bulk cash transfers and this figure is growing annually. U.S. Treasury research and reporting from financial institutions show similar results. However, studies also indicate that currently only 1% of money laundering is caught through current procedures.

¶3. (SBU) The profile of money laundering has changed as DTO's increasingly wash money through cash businesses instead of the banking system or large corporations. DTO's conduct many of their transactions in US dollars; often using dollars to pay suppliers, couriers and other operational expenses so only a small percentage of the cash directly enters the financial system. In the past, DTO's used banks, money exchange houses (casas de cambios) or foreign exchange centers (centros cambiarios) to launder their money. (Note: Centros Cambiarios are similar to casas de cambio but are not allowed to transfer money internationally and are less regulated by financial agencies). However, regulatory reforms and several large high profile money laundering busts of casas de cambio in the states of Puebla and Quintana Roo have forced DTO's to exploit the lack of regulation of non financial businesses. A knowledgeable business consultant told us that major Monterrey corporations, such as the founding Group of 10, have steered clear of involvement in potential money laundering activities.

¶4. (SBU) Our private sector contacts believe that money laundering is now concentrated in cash businesses such as commercial real estate, car dealerships, gas stations, commodities (mainly steel), agriculture, casinos, and jewelry. There are indications that the number of drug related real estate transactions is large. David Robillard, the Mexican General Manager for Kroll Inc., a U.S. based security company, investigates real estate transactions and other deals for

MONTERREY 00000137 002.2 OF 003

clients. According to Robillard, in 25% of the cases where Kroll investigates a company they come up with some derogatory information linking them to a drug trafficker. Of the companies with derogatory information, about half contain sufficient derogatory information to stop a deal.

Increasing Mexican Regulations to Control Money Laundering

¶5. (SBU) In recent years anti money laundering regulations have become stricter in Mexico. The Mexican government controls money laundering under the 1990 Article 115-bis of the Fiscal Code and the 1996 Article 400-bis of the federal penal code. Punishment can include a prison term of up to 15 years. Updates to the law in the subsequent years and changes as recently as 2008 by President Calderon included strong provisions such as preventive detentions, asset forfeiture and prison terms up to 40 years in certain cases. On April 2, 2009, the Mexican Federal Senate approved a new law ("extinction de domino") proposed by President Calderon expanding Mexico's asset forfeiture laws (See Reftel). Most importantly, under the proposed law assets controlled by third parties or front companies could be seized by the federal prosecutors prior to a conviction. The legislation still must be approved by the lower house but approval is expected.

¶6. (SBU) Nuevo Leon Governor Jose Gonzalez Paras has stated that he will take on money laundering in Nuevo Leon. Press reports indicate that his government has proposed a law to give state prosecutors the independent ability to go after anyone that "acquires transfers, administers, holds, changes, deposits, guarantees, invests or transports resources, rights or goods

with the knowledge that it proceeds from an illicit activity." Penalties include prison terms up to 15 years, fines and asset forfeitures. However, local business consultants and financial experts do not think that any state legislation will make much difference, noting that in the end only federal legislation will matter. When econoff contacted a close associate of the Governor to request a meeting with a state expert on money laundering, he was told that Nuevo Leon was not involved as this was a federal issue.

17. (SBU) Miguel Martinez, CEO of the financial services firm Base Capital, told econoffs that financial firms in Monterrey are protecting themselves well against money laundering and already exceed legal requirements. Not only are financial companies regulated by the Mexican government, they are also scrutinized by international credit rating agencies. (Base Capital, which specializes in corporate transfers, has a policy of not accepting cash deposits so as to avoid involvement in potential money laundering.) However, Martinez agrees many other industries have not done enough to prevent money laundering. He said that the new extinction de domino powers will be helpful in fighting money laundering but added the Mexican government will still need to do more, i.e., greater enforcement of existing laws, increased regulation of public notaries (who are responsible for real estate transactions), and heightened reporting requirements for cash-based businesses.

Know Your Client: The Importance of Self Regulation

18. (SBU) A key problem is that current laws and voluntary regulatory standards only apply to the financial industry, not to cash businesses. Professor Luis de Garate, a finance professor at Monterrey Tec University, told econoffs that outside of the financial industry, there are no standard operating procedures, little regulation of money laundering, and no proactive detection of illicit funds. This lack of oversight creates the risk that legitimate companies that err may end up with mobsters on their doorstep, possibly exposing their executives to kidnap. Also worrisome is that during difficult economic times, such as the current economic crisis, companies

MONTERREY 00000137 003.2 OF 003

are even more lax with whom they do business even though all the risks remain.

19. (SBU) But perhaps the biggest risk to non-financial companies is the potential damage to their corporate image. Many companies in Monterrey are either foreign owned or export oriented. These firms generally have strong ties to other companies in U.S. border-states that are sensitive to issues such as money laundering and have stringent requirements that protect their supply chains. De Garate recommends that firms go beyond the basic premise of "know your client" and include the hiring of compliance officers and completion of background checks on all investors, suppliers, and employees. Companies must have a clear policy on what level of risk they are willing to accept when it comes to working with other firms and must also initiate robust fraud detection mechanisms. Different organizations will have different risk tolerances depending on the circumstances. Robillard noted that traditionally foreign investment funds and pension funds have been more risk averse than other types of firms but that everyone should be more cautious.

Comment: New Laws Help; Will to Enforce Them is Crucial

¶10. (SBU) Comment. Our industry contacts all agree that, outside of fringe banks and financial companies, the regulated financial sector in Monterrey is working to keep money laundering out of their businesses. Illicit money, however, continues to flow freely into the economy by other means. The asset forfeiture law will be helpful in deterring legitimate companies from dealing with dubious firms but additional changes such as the passage new statutes governing the purchase and sale of real estate and the regulation of high volume cash industries still need to take place.

¶11. (SBU) Comment continued. Although the proposed asset forfeiture law would help, the key issue is whether Mexico has the political will to enforce money laundering laws. A business consultant with substantial experience in the banking industry commented that the Mexican laws were 90% adequate but the problem is that they were not enforced or impeded by government corruption. For example, while many banks submit suspicious activity reports, there is little indication that these reports are ever pursued by the competent authorities. End Comment.
WILLIAMSON